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C O N F I D E N T I A L SECTION 01 OF 03 BAKU 000868

SIPDIS

STOCKHOLM FOR SE GRAY, AMB MANN

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TAGS: [PGOV](#) [PREL](#) [AJ](#) [TU](#) [TX](#) [ENRG](#)

SUBJECT: SOCAR STILL SEEKING SOLUTIONS FOR TURKISH TRANSIT  
BARRIER

Classified By: Ambassador Anne E. Derse, Reason 1.4 (b,d)

**¶1.** (C) Summary: SOCAR continues to seek to find a way to convince Turkey to allow transit to Europe for its Shah Deniz Phase Two gas. However, according to SOCAR Marketing Vice-President Elshad Nassirov, Turkey continues to insist as a prelude to granting transit that Azerbaijan must sell it an amount of gas that would leave too little left to sanction either Nabucco or TGI, and hence render the Southern Corridor project unviable. Nassirov thought the GOT transit stance was either short-sighted or evidence that Turkey was in some way colluding with the Russians to prevent the Southern Corridor from becoming a viable alternative. Nassirov urgently sought USG and EU help to convince Turkey to provide fair transit, using the argument that: 1) the more gas that transits through Turkey, the more gas will be available potentially for Turkey, since sellers upstream will get better netbacks by selling to Turkey than by selling to European consumers downstream of Turkey, and 2) Turkey's strategic importance to Europe increases the more gas that transits through it to Europe. End Summary.

**¶2.** (C) On September 12 EnergyOff met with SOCAR Marketing Vice-President Elshad Nassirov, to discuss his impressions after the September 9-10 Baku Conference on "Oil and Gas Potential in Azerbaijan and Turkmenistan: Energy, Economy, Partnership Strategy," and the related visit of Turkish Energy Minister Guler and other regional energy representatives.

**¶3.** (C) Nassirov said SOCAR had a series of energy-related meeting during the Conference, to include with interlocutors from Turkey, Turkmenistan, Ukraine, Gas de France, RWE Midstream, Bulgargas, Edison and Gazprom.

TURKEY

**¶4.** (C) In the meeting with SOCAR President Abdullayev, GOT Energy Minister Guler, accompanied by Botas Director General Huseyin Saltuk Duzyol, insisted on purchasing eight bcm/a from Shah Deniz Phase Two (SD2). Nassirov explained to EnergyOff that SOCAR wishes to sell no more than four bcm/a of SD2 from SOCAR, since selling eight to Turkey, with three for Azerbaijan and Georgia, would leave only two to three bcm/a (of a total of 13 bcm from Shah Deniz II by 2013) for sales to Europe, not enough to sanction any pipeline. As such, with Turkey as its only major SD2 customer, there would be no price security, as the GOAJ feared Turkey would seek to "renegotiate" the SD2 purchase price downwards a few years into the contract. When Nassirov explained to Botas it sought export diversity for SD2 to enhance price security,

Botas Director-General Duzyol suggested that Azerbaijan was a "traitor" for seeking to sell gas to Europe over its Turkic brothers.

SOCAR SWEETNER

15. (C) During the Guler-Abdullayev meeting, SOCAR repeated its position that of the estimated SD2 13-14 bcm/a, it would seek to reserve seven bcm/a of SD2 for the "open market" (ie. to Europe), three for Azerbaijan and Georgia, and four for Turkey. SOCAR sweetened the offer to Botas during this meeting, saying that the seven bcm/a would be both its minimum and maximum sales amount to Europe, i.e. SOCAR would sell no more than seven bcm/a to Europe. SOCAR told Guler that Turkey could be the customer for all remaining SD gas, once seven bcm/a for Europe and three bcm/a for Georgia and Azerbaijan are subtracted, i.e. Turkey could have all SD produced gas above 10 bcm/a, regardless of how much it produces, both in Phase Two and in subsequent phases. Additionally, SOCAR said Turkey could have the first right to purchase all gas Azerbaijan develops in any other field, to include Absheron, Umid-Babek, and Sardar-Kyapaz. After hearing this offer, Guler repeated that the GOT first must have eight bcm/a from SD2, after which it can discuss purchasing gas from other sources.

16. (C) Nassirov told EnergyOff that Turkish gas strategy can be seen in three phases. In the first, it sought to be a gas aggregator, buying gas from upstream and selling it at a profit downstream. When it became clear that this policy wasn't possible, it sought to offtake fifteen percent of all

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transit gas at a discounted price. Now that this strategy has proven unworkable, it seeks a volume commitment from Azerbaijan that it knows will render the Southern Corridor project untenable. Nassirov said he didn't know if the GOT was just being short-sighted, or whether it was in some way colluding with the Russians to prevent the Southern Corridor from becoming a viable alternative.

17. (C) Nassirov said the USG and EU must convince Turkey that: 1) its strategic importance to Europe increases the more gas that transits through it to Europe, 2) the more gas that transits through Turkey to Europe, the more gas will be available potentially for Turkey, since sellers upstream will get better netbacks by selling to Turkey than by selling to European consumers downstream of Turkey. Turkey's reaction seems to be however that 'politics be damned, we need eight bcm/a now,' and Nassirov gave his own personal opinion, stressing that it was not an official GOAJ or SOCAR position, that "Turkey will never allow transit."

GOTX GAS

16. (C) Nassirov said that Turkey getting eight bcm/a from the Caspian region was only possible if some Turkmen gas flowed east (i.e. 4 bcm/a from Azerbaijan, 4 from Turkmenistan). As such, Azerbaijan sought to have Turkey conclude a SPA with Turkmenistan, buying gas at the Turkmen border, possibly within the 1998 SPA between the two countries. Were such a deal concluded, Azerbaijan could build the cross-Caspian (interconnector) pipeline. In this regard, Nassirov said he had discussed with Nabucco partners OMV and RWE Midstream the possibility of "starting Nabucco in Baku," incorporating Turkmen gas delivered Cross-Caspian into a Nabucco pipeline continuing through Georgia and Turkey.

BLUFFS

17. (C) Nasirov, citing Clausewitz ("in war all tools are good") said that SOCAR's priorities for SD2 sales were first Nabucco (if possible), then TGI. However, it was continuing its efforts to put indirect pressure on Turkey to provide transit by floating rumors using Gazprom, Gaz de France, and Ukraine:

GAZPROM: Nassirov said SOCAR sought to convince Russia that it would sell SD2 gas to Gazprom. It has told Gazprom that SD Consortium members SOCAR, BP, StatoilHydro and Total have all agreed to sell all SD2 gas to Russia. Nassirov stressed to EnergyOff that in truth SOCAR is not willing to sell any SD2 gas to Russia, but wants this news of SD2 gas sales to Russia to leak into the press so that Turkey feels more pressure to take the offered four bcm/a and provide transit for the rest of SD2. As such, the USG should discount any/all press stories of GOAJ intentions to sell any SD2 gas to Gazprom.

UKRAINE: SOCAR is in discussions with Ukraine about a pipeline across the Black Sea to Crimea onwards to Ukraine (what Nassirov described as a "modified Whitestream"), carrying Azerbaijani and Turkmen gas.

GAS DE FRANCE: As previously mentioned to Embassy, SOCAR is in talks with some Nabucco partners to eject Botas from the Shah Deniz Consortium and include Gas De France, in order to build a "Nabucco without Turkey" pipeline, going through Austria, Hungary, Bulgaria, Black Sea, Georgia, Azerbaijan, Caspian Sea and Turkmenistan.

Additionally, Nassirov said that another possible rumor was Azerbaijan constructing a cross-Caspian pipeline to it could export gas east to China. If this pipeline were ever built, it could be used to send Turkmen gas west.

#### NO-WAY IGA

¶8. (C) Nassirov said that Azerbaijan will "sign no paper," whether three-, four-, five-, six- or whatever-way IGA, pertaining either to TGI, Nabucco or any other pipeline, unless and until Turkey and Azerbaijan have a signed transit agreement guaranteeing transit of seven bcm/a of Azerbaijani gas.

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#### SARDAR-KYAPAZ

¶9. (C) Nassirov said that the GOAJ "bottom-line" position on Sardar-Kyapaz was that it would be willing to accept seven to eight percent ownership, providing there would be joint development of the field and the gas would go west. That could be sold to the GOAJ people as a triumph; anything less couldn't.

¶10. (C) COMMENT: Nassirov, the SOCAR executive primarily responsible for gas sales abroad and one of President Aliyev's main advisors on gas strategy, continues to seek any/all means to convince Turkey to provide gas transit in accordance with existing commercial and legal norms. Noteworthy is his mentioning Nabucco as a SOCAR priority over TGI, if sufficient volumes can be found, and his insistence that SOCAR cannot and will not sell more than four bcm/a to Turkey, since doing so would cripple the Southern Corridor project and subject Azerbaijan to the threat of not receiving market prices for its gas. What is new from this meeting was SOCAR's willingness to put a cap of seven bcm/a of gas sales past Turkey, and its collateral willingness to offer to sell all other GOAJ gas not used domestically to Turkey (which from a commercial viewpoint makes sense, since Azerbaijan gets the best netbacks from Turkey). Nassirov's comments track well with what Embassy hears from other Shah Deniz Consortium members and potential customers of SD2 gas concerning Azerbaijan's and Turkey's respective positions.

END COMMENT

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